The Future of Tax Credits for Low-Income Working Families
EITC Funders Network Funders Briefing
Tuesday, December 2, 2008
9 am -12:30 pm
Embassy Suites Convention Center
Washington, DC

This meeting was an opportunity to talk with each other about the state of the field.

Overview of the EITC Funders Network

Ami Nagle, EITC Funders Network: Just barely five years old, the EITC Funders Network began out of the interest of a handful of foundations that wanted to learn from each other and continue to advance the field. The Network's membership has grown since then and now has a membership of more than 100 national, regional, and family foundations and funders, the United Way, city and county governments, and other organizations that support the Earned Income Tax Credit, or EITC.

Information exchange via in-person meetings, web seminars and discussions, and publications are among the ways the Network supports members. Membership is free. More information on the EITC Funders Network and the opportunity to join the Network's mailing list are at www.eitcfunders.org.

The State of the EITC and Free Tax Preparation Field

Julie Garcia, Director of IRS/SPEC and Carol Barnett, Director of Headquarters Operations – IRS VITA on Learnings from the 2008 IRS VITA Grant: It's an honor to direct IRS/SPEC, she said. This year it has been painful, too, although this difficulty has been something funders share at times when they have had to tell organizations that they cannot get funding. Still, she said, they could tell a very good story about last year, with an award for 8 million for VITA grants, a 33+ percent increase in returns prepared using almost the same volunteer resources as the prior year, and more awareness from activities such as Super Saturday (tax return prep for SSA recipients and veterans). Little change in the level of volunteers means staff and existing volunteers must be tired, so we are all concerned about burnout.

January 30 is the scheduled national EITC day for 2009. Plans are in the works but there is not yet a lot to announce on this because of the election and change in administration in Washington. The plan is to focus on non-filers – those payers need who to go back into the system and although we plan to concentrate on the current year they will ask sites to dedicate a date to helping payers with prior year returns. IRS Assistance Day will happen in March. More to follow and they need help and ideas – they will start small this year.

She said they are getting ready for the '09 filing season and are challenged to expand their scope including cancellation of debt, mortgage debt forgiveness, with amounts

limited to point of personal residence. This will mean the need to use more seasoned volunteers to help with those returns.

The VITA grant money came in the day after Christmas and this past year they implemented this effort, announcing it and making selections within 10 months. Carol Barnett will have more to say on this below, she said.

Carol Barnett- Director of Headquarters Operations- IRS VITA:

Excited about this new job and opportunities.

The good news, she said, is while she was in the field as area director and ultimately by September most of the work was already underway for the grant program: procedures had been designed and developed and, she said, we have a wonderful staff, took the best and the brightest from our field including Libby Blair-- a fabulous leader now over the grant team. We hope this temporary staff will become permanent, she said.

This money is only 1-year money but she said: we have set ourselves up so we don't have to start over if this turns into a multi-year process.

She said they took advantage of and got advice from federal agencies and from some of the people in the field and in this room today: You all have been funders longer than we have, she said, adding: There are things we could have done differently – and our next opportunity will be next summer when we would love to hear from you. We put a publishable program overview and application together quickly for the 8 million in grant money and made it possible to do the application process online. We got wonderful results – 379 applications were received requesting over 30 million dollars. Needless to say had to disappoint. Ultimately 111 awards were made.

"There was reason to our rhyme in that we wanted to make significant impact on segments of the population we work with and serve," she said, and also: We asked grant applicants for their primary and secondary taxpayer focus and are pleased with the coverage we got -- including geographic segment. They are predominantly low-income with a large percentage that is rural. As you know, she said, the selection process was designed to be seamless and simple, but we also know, though, how the best laid plans become more complicated.

She said they used a 2-tiered process and had a technical evaluation first. In that process they looked at geographic coverage and the extent of coverage for the underserved, paying attention to where people are now and to performance in the past.

The selection process involved:

- Technical evaluation
- Geographic area of coverage
- Underserved population targeted

- Number of taxpayers to be served
- Existence of other tax preparation programs
- Reasonableness of administration cost
- Other sources of available funds

They tried to reward prior performance where we could but also looked to expand areas covered and served and so looked for the ability to sustain and grow. Most of our grantees have been in the business, she said, and: We looked for a quality control process (quality is still very important) and at infrastructure.

Audits have already started on our program and, she said, we haven't given a nickel out yet, so it is clear this effort will be scrutinized even more so than most. We needed to be in a position to have a grantee infrastructure and have them able report to us.

First the process looked at application on those areas. The 2nd tier involved the grant program office and a general review for consistency, matching funds, and other grant program requirements like tax compliance.

We found a larger number than expected that were non-tax compliant, she said: That's a lesson learned -- How would it look if the IRS gave $ to organizations unable to keep their administrative house in order?

This process is very much outlined within our documentation and while always the truth is this wasn't black white, or yes and no all the time -- but we are pleased.

There will be coverage in all 50 states and DC, though not every state got money because not someone from every state applied, but some cover more than one state.

On Nov 5 we mailed notification letters, sending 3 kinds of letters, she said.

Information request: We want to learn about kinds you send out because we want to look more closely at how we tell people in letters why they were and were not selected. We would love to have you share yours. We kept it high level and encouraged calls into us. We got approximately 200 calls.

Actually out of 379 applicants/111 awarded, this is "what we would have expected," she said.

On oversight, she said, they are going to do onsite visits by program office staff. They will go out to some and local territory offices and will work with recipients very closely -- and local staff will be there too.

Participants had an opportunity to see the geographic dispersal of awards in graphics from her PPT presentation.

Challenges included:

- Matching funds – the need to provide more information on matching funds, how to explain them in more depth – what is matching/what is in-kind.
- Tax compliance – this is a very big one as it means paying and filing the proper forms, not just one, and this is lesson help people know what to send in to show tax compliance.
- Allowable expenses -- they found issues and concerns with that.

They would love any feedback including anonymous comments.

Comments/Q and A:

Comment: We need to equip SPEC employees on exactly how to do grant applications and we have committed to them on this -- because they are getting calls also, and they are trying to help partners. This was difficult and we will train them if we get the funding.

Q: Is there a list of grantees on web site?
A: Don't know the answer but will send out a link somewhere for more information on that – it's probably on irs.gov

Learnings from the 2008 Tax Season and Regional Convenings

Jackie Lynn Coleman, National Community Tax Coalition:

The NCTC is a private center for economic progress in Chicago. It leads the movement to connect families to tax credits and economic opportunities . A grass roots movement built from voices of constituents, NCTC serves and develops activities based on these voices. A steering committee helps guide the coalition. Working groups include a financial products and sustainability group, looking at where field is currently and how to move it forward.

The NCTC supplies affiliates with:
- Technical assistance
- Education opportunities
- Analysis of tax policies
- Advocacy campaigns
- Resources

The PPT presentation shows a graphic on affiliate demographics. In addition there is a slide showing the organization's affiliates did over a half million federal returns and over three hundred thousand state returns this past year (08). 121 affiliates did 174,201 EITC returns, with the average EITC at $1,509.

NCTC wanted to figure out how to give service to more EITC eligibles. Also this group focuses on corporate partnerships and the volunteer protection act and what it means on the ground for programs. They are looking at other strategies, to help organizations connect to low-income workers, and going into employer site is important, as is how to

begin to service single filers. They are looking at self-service models for tax prep and also have a quality assurance working group.

Quality assurance is important to the coalition and the working group stood up last year and provided the IRS with steps to take from there, but also its Formula 5 publication and a companion 5 for this year for the field will help groups improve community programs – state advocates – the NCTC has a leaders group in advocacy too.

Appreciate the support we receive, she said. Technical assistance is consultative and comprehensive. This happens over the phone, in email etc. but also NCTC provides more intensive technical assistance in areas including community tax prep, financial services, advocate leaders development, and many others; someone goes in and provides a 360 degree assessment of program and organization, speaks to workers, partners, and some constituents to see what is working and where the gaps are – they look for the missing partners at table and figure out how to assist that process to get them to be there.

The NCTC has educational opportunities through audio conferences and web seminars and training. It had 2 regional summits this year and worked to expand and get more groups engaged. Analysis of tax policies led by Jonathan NJus and his staff, through our tax roundtable provided a wealth of information.

On affiliates: A lot are doing tax prep and providing financial services in their communities. (Direct deposit/checking and savings accounts/stored value cards/IDAs and other accounts)

Released a national program survey and encouraged programs to use national tax assistance tool for data extraction -- to encourage groups to use more of their data; this gives clear information on their impact and lessons learned to strengthen and expand their programs. It helps for program development.

Shows successes of organizations: Completing survey were 121 of 700 affiliates, but only 300 are providing tax prep on ground though.

By far the ETIC and child tax credit continue to keep taxpayers coming back but also others who see the impact is strong.

Financial services is another component we link information from, she said – see the number of direct deposits and what individuals are interested in checking and savings accounts in the PPT presentation.

That (checking and savings) remains the highest (most popular), but the field is evolving and moving; people are beginning to use US savings bonds for themselves or for generational reasons – for their children and grandchildren; we have connected taxpayers to CDs.

This year she said they "decided to do something crazy" and not have national conference but to go deeper with our affiliates on their needs, wants and desires and those of their constituents, so NCTC had regional summits instead.

NCTC strategy is focused on increasing affiliate engagement (for existing ones), and on how to build a base in the South – but working in ways similar to the IRS mapping and numbers of folks applying to VITA funding.

With fewer programs for resources NCTC also wanted to focus on that and also on criteria – looking at the poverty rate and anticipation of refund use – so the NCTC planned to go to Phoenix, Memphis, and Houston (cancelled due to natural disaster) and in where they decided to go results were that they touched 19 states as well as 244 participants.

State trends for regional families and activities have focused on 3 areas: tax prep, financial services and leadership development.

Under tax prep: In survey design and data collection, extraction and analysis they focused on how to use survey data, design appropriate questions, begin to use it to tell your community's story -- and also increasing scale by connecting to hard-to reach and underserved populations.

In financial services they needed to focus on how to get and maintain constituents at least at ground zero. Debt reduction and increasing savings, decreasing the taxpayer debt ratio are important as well as appropriate financial products.

Under leadership development folks want to figure out how to be stronger, to have a voice, and so they participated in hands on face to face role playing for messages to congressional leadership – this was about advocacy and creating state champions

On trends they found from state action plans: It is important to increase the number of VITA sites but also the volunteers at them – this represents a huge gap with double digit growth in tax returns and single digit growth in volunteers. This is a tremendous struggle.

Other trends from state action plans and from the field include: combating predatory lending, moving the un-banked to banked, expanding employer partnerships and work with state officials, collaborating with colleges and universities – the Historically Black Colleges and Universities are more engaged and the desire is there to increase financial services. Sustainability issues are around funding and volunteerism, and also in using self-service tax prep models – we are looking forward to seeing that become a strong model for community, she said. Tools and resources include standardized site survey questions, Fomula 5 for IRS and the field, asset building products and practices guide.

Education/Tools/Action: NCTC promotes the use of tools and resources and the have a federal advocacy agenda for 2009 that includes:

- Creating safe choices

- Protecting our financial futures
- Restoring the value of work
- Investing in tomorrow

Publications and additional educational opportunities can be found at www.tax-coalition.org

Come to National Conference in San Antonio on August 31. See the web site for details.

NCTC's Tips on closing the gaps include:

- Supporting programs to hard-to-reach communities and underserved populations (provide matching grants to community-based VITA programs)

- Bridging the gap between tax services and financial services

- Facilitating leadership circles to raise awareness

- Providing technical support and guidance to groups serving low to moderate income workers (marketing, partnership, engagement)

Identified Theme: sustainability – and volunteerism (from Ami)

Learning from State EITC Efforts
State Earned Income Tax Credits: Progress and Prospects

Ed Hatcher, Hatcher Group and the State EITC Network: Speaking on progress and opportunities for future advancements around EITC, Ed Hatcher explained the Hatcher Group supports a rewarding initiative which is the state EITC resource center, funded by The Mott Foundation and AECF. See www.stateEITC.com

They provide a one-stop clearinghouse that lets people know where each state stands with EITC. It has a library of research/reports -- all the great ones. The HG produces a quarterly electronic newsletter on states' progress. The editor is Amy Beall.

Participants were encouraged to send their contact information to her at The Hatcher Group to receive it. HG works to write, design and disseminate reports around ETIC and what is working. The Group goes out to state coalitions, provides messaging, and helps people in state policy organizations and local coalitions expand their work around EITC and communicate effectively. He said they just returned from Virginia, West Virginia and Ohio.

Plans are to make the Web site, which has been a clearinghouse, much more interactive and dynamic with RSS feeds on EITC, video commentary, and polls and surveys.

EITC has made tremendous progress over last several years.

Twenty-three states and the District of Columbia have enacted state-level EITCs as of right now, and the credits range from 3.5 percent to 40 percent of the federal ETIC.

In 2008 Washington state, which doesn't have an income tax, enacted EITC. The Hatcher Group was involved in this effort and is pleased with how it turned out.
Four states have expanded ETIC (Indiana, DC, New Mexico, and North Carolina).

Why has this been so successful and why has there been a steady state increase, but not a single one has sought to cut back on EITC?

Reasons for Success of state EITC:

- It's good policy. Once it is enacted people say it's working.
- It's engendering broad-based coalitions. EITC is wonderful from message perspective – because it is for working families and its possible to talk across the isles in a way that engages everyone.
- Key legislative champions are ready to act in successful states.
- Really great research and data on constituent take-up exist.
- Engaging legislators in free tax assistance campaigns is a promising strategy – uniting free tax assistance movement to state EITC.

Brookings has data breaking down EITC uptake by congressional and state legislative district. With ETIC, you can talk about it in terms of it being right thing to do but also that it is what your constituents care about – that it affects them directly. This fabulous research is on stateEITC.com. Brookings has done terrific research that makes the point that ETIC affects rural, urban and suburban families equally. The assumption was that this was inner city issue several years ago -- and this research has completely debunked that.

He presented the Delaware EITC Campaign in the context of a promising strategy of Informing legislators about it and the impact it could have in their communities. This was crucial to passing an EITC bill in the legislature. Engaging legislators in free tax assistance and prep groups is an effective "back door" approach to educating them. Legislators can put data on their web sites, do newsletters or op eds and participate in launches of free tax assistance campaigns – and in Delaware where they enacted the EITC, he said, proponents told him that it would not have gotten through without the free tax assistance campaign.

These are great opportunities and there is take up now in Pennsylvania and Ohio.

Virtually all states headed for serious budget shortfalls.

Two things to keep in mind are that this is often a multi-year effort and that states have been working on this for years.

It's important to keep moving and we want to encourage this even in this environment.

Also with budget shortfalls there are regressive measures enacted to make up for it and in some cases EITC can be a counter balance to those regressive measures -- to make the system fairer and more progressive. His PowerPoint lists 41 states facing budget shortfalls but everyone should take heart knowing enacting or expanding state EITC is likely to take several years in a multi-year effort.

On new state EITCs, he said Arkansas, Connecticut, Montana, Ohio, Pennsylvania, West Virginia show opportunities, and The HG will be traveling there to help. He sees active coalitions there and the infrastructure to make things happen.

Coalitions are on the ground to push agenda in new legislative sessions in a number of states. Expansion prospects exist in Colorado, Delaware, North Carolina, Oregon, Virginia and Washington at this moment. The HG has information on each state related to their prospects, including barriers.

Themes: bread and butter of EITC and free tax preparation, the evolution of free tax and financial services and the advocacy-policy arena.

Discussants Wynne Lum, Bank of American and Bonnie Howard, AECF.
Q: What do you think are the trends in the field?

Bonnie Howard, AECF: This morning riding in and not as usual to Baltimore, I listened to the radio – officially we are in a recession today and have really been in one for a year. This makes me think about the comments Ed was making on outreach – and that there are likely to a lot more people who may become eligible for EITC who don't know about it or never thought they'd need it. We will need to be creative and rethink how to reach them, she said, adding:

Along those lines – managing a portfolio of investments for the Foundation, it is a revolving door in the State legislature, and even though Casey has been doing this work for 10 years we always are running into people who are still hearing about this the first time. So talking with legislatures is important -- we need to talk family strengthening and EITC is part of that. Outreach is really so important. There is a lot to learn about how to message this in light of changing demographics and the need to be sensitive to this and thoughtful and not rest on our laurels. There is room to do more work.

As Casey does this work, we think about philanthropy as an opportunity to use grant making to do social change and EITC has been an excellent example across the board – in how to mobilize things on ground, how to get advocates and think tanks involved – everybody has a role to play. So when we started doing this there was always a lot more than tax preparation on our minds – it was an opportunity to think about financial

services and asset building in low income communities as well, and each year we make progress -- but there is always more to do and do better. In this economy people will look to work our partners will be doing to inform the next generation around family strengthening and economic vulnerability.

Wynne Lum, Bank of America: Happy to be among friends – agree with what you have said given your perspective (Bonnie's), and will speak from the BOA Foundation's experience of past and present. My boss and president of BOA's charitable foundation is not here, so I can talk about me (laughter). Things I have learned by being here – and what I should have done this year.

BOA Foundation targets 200 million a year, at national and at state and local market level – and how we fund this is at the national level for asset build means at end of 3rd quarter we make a decision while at the state and local level we take a look at the beginning of the new year. So an ah-HAH moment for me was around the deadline (and around expectations inside this variation); last September 1 as a deadline date was for 2009, and applicants probably finish their applying the last couple of weeks of August, then quickly we begin to get calls on what is coming from the applicants. This is the way they come in and so when people ask or talk about "matching" funding I know now that I should have been and will be more attuned to that – I can't control local giving because they commit funds when they get them and these are not allocated till mid-January. Yet too at the national level we can start because we have multi-year giving. In working with United Way of America, though, we don't allocate with local markets until September 1 so we were receiving calls about local levels and I hadn't started. So lesson learned is that next time I need to be in on the beginning of the grant process and to adjust what we do there, he said, adding:

Today? We are in a recession. There are likely to be more people who are being underserved and who will need EITC which is an entry point to financial stability not the place where we stop -- so a question is" How to leverage funding so it doesn't stop at just EITC and tax refunds?

Looking into '09 banks aren't doing that well, and even those surviving will have some off years. Our stocks are down, the economy is down -- what do we do to help continue and maintain a level of funding? We will be lucky if we can stay flat to our grantees, but reviewing all funding for 2009 we want to increase impact even with flat support. So our organizations and partners are looking at how to make EITC more of a financial stability model, not just a refund. Some good work is being done by United Way and others as well -- personal financial coaching and education too are important. We know it's not the entry point. If you don't have money to begin with then you don't care how you are going to save it. We need a more holistic approach to getting out of recession, and I hope we can help each other achieve that financial stability for all.

Themes from Ami: One that is on my mind is around capacity – I am really struck by the idea of 300 plus applications, and the numbers that got kicked off the top because they didn't have the appropriate documents in place to get the job done. How can you have a

good, strong organization? What does organizational growth have to do with financial services and advocacy? There is an issue that's been brought home to us around health of the set of organizations doing this work and I wonder if we have a clear picture of the strength of those entities.

Comment: On the recession comment and on putting emphasis on the employer side of equation we don't have a lot of nonprofit orgs or VITA sites that work directly with employers to help low wage workers who might be eligible file for EITC -- so how to build the capacity of non-profits or other organizations to do this, particularly with the economy as it is now -- to get the word out to employees and help them. The other piece is around the public policy side and money allocated for employers to hire TANF recipients or HUD residents or for example, enterprise zones -- but the take up of those benefits is low, so a question occurs on investing in public policy around helping employers and taking it up as an "employer benefit."

Comment: Ford Foundation is working in 11 cities to try and help low wage workers get benefits and some are focused around EITC – it is a good way to build a relationship around employers and benefits -- unlike food stamps, for example. Given what you are seeing in terms of too many people applying now – what would we be asking employers to do to work toward larger sustainability questions – how can they support this in addition to helping their own workers? How can this be tested and moved along, how can some of it be incorporated?

Comment: United Way in the bay area got fliers in one specific Target store, it worked it one location. On the capacity issue, individual tax ID numbers for people without Social Security numbers in a quite rural part of our 7 county region -- this is a big capacity problem – workers need to apply for this # and it's a long process sometimes extending beyond tax season lot of paperwork looking for models to help agencies deal with this legal aid has one person designated in short time period – do you know ways to deal with this laborious process or of updates on changes from the IRS to this process?

Comment/Answer: Groups also have engaged other grocery store chains in other places. Birmingham, AL has tax site at a UPS store – organizations have to really think strategically about where they want to position it. Mail Boxes, Etc. also has high traffic and some grocery store chains support this and recruit some employees to volunteer. There are a lot of strategies bubbling up. It has been a struggle for some programs especially thinking of in Florida on this – a struggle to put sites in malls but with some leases the negotiations are difficult – but there is another side – in TX grocery stores didn't renew their contract with paid preparer and gave community-based program an opportunity to launch free tax program of theirs instead.

Employers do care. More education will be important but also many have posters, newsletters, fliers for employees posted…

Q: Given the evolution of looking at asset accumulation and EITC, any models on data longitudinally? There is powerful data on advocacy side on what happens in a year, but

what about longer term, perhaps built into the METIS tool or are there examples of tracking who is filing and continuing to save year to year?

A: Yes thru NTA tool and through program survey at NCTC. The NTA tool tracks information longitudinally, but taxpayer privacy and confidence is important; groups are coming up with identifiers to connect those dots appropriately. Steve Lee has been looking at growth and development in terms of tax preparation. Don't know the asset building indicators – the field struggles to illustrate that level of impact. Folks are looking at credit scores, the number of revolving accounts, at how people are doing year to year.

The Center for Economic Progress financial opportunities project asset building service delivery system, to be launched in 3 cities this year, and programs must get permission, approval, from clients – this is one way to get financial services and uptake rate information and see that data are maintained, he said.

Ami has heard about recent paper by a community based organization and someone else on tracking the impact of EITC and moving up the job ladder; she has also heard there is new work on use of EITC, how people are using it what they are doing with the money…saving/spending/or what.

Q: For the IRS people on evaluation – What data can we expect and are you doing return on investment for the rural component, what for different substrata? How will you do it? Will it be widely available and who is doing the evaluation?

A: No contractor is doing it; in terms of data, haven't thought it through yet but we need to try and show return on investment with high-level data. There are new considerations; for example, the grantees promised to open so many sites based on what they originally asked for and it was 14 or 13 million, so they have to retool their numbers and budget. That's one informational item (number of sites opened). There is also the monitoring aspect, if they expanded their services as they said they would -- we have been focusing on delivering the grants and accounting for money and now we are in the middle of an audit…so we are doing all of it in real time and learning as we go. A large number of our grantees have been providing service, so we are looking more to try and see if grantees are doing what they said they would do with the money.
We do have data on what has happened in the past.
This first year we want to be sure we can account for funds; they were spent the way they were supposed to. New business plans. 110 were existing partners only one is a new partner.

Stay in contact and ask for more information is message from Ami.

EITC and Other Tax Credits Under the Next Administration

A conversation about potential expansions and changes to credits for low-income individuals, including the EITC, CTC, and education tax credits.

Alice Warner, W.K. Kellogg Foundation, moderator.

From Ami: We are on the edge of an exciting time with the EITC and child tax credit and there are some new credits being proposed – ways to use the tax code to help low income workers. This session is an opportunity to ask to ask speakers Mark Greenberg and Rachel Gregg to help us understand what some of those proposals are, what has legs, and what doesn't.

Mark Greenberg, Center for American Progress/Georgetown University:

Dual conflicting forces: A time of extra hope and opportunity in terms of what is envisioned for the next administration.

Terrific potential is presented by that and we have all heard about economy, that now we are officially in a recession -- what it will mean for all of us and its potential to affect policy is a tension I can't resolve today, he said, adding:

I think it's important to recognize again that the incoming administration appears committed to using the tax system in a whole set of ways around advancing social policy. They recognize there is a crucial need to address refundable tax credits so they benefit low income people.

Over the course of the next 4 years you will see lots of issues on refundable tax credits.

The first thing to notice is, when we look at what the Obama campaign put forward, is a set of 6 different creations or expansions of refundable tax credit(s). These are:

- Making work pay credit
- EITC expansion
- Child and dependent care tax credit
- American opportunity tax credit (education)
- Mortgage interest credit for non itemizers
- Savers credit

His PowerPoint shows the estimated costs for proposed credits and expansions.
All have costs; this information is taken from the Tax Policy Center's estimated costs in 10 years. These range from Making Work Pay (709.5 billion to 22.8 billion for the Child and Dependent Care Tax Credit with the others lying in between). EITC over the 10 years is estimated at $46.5 billion.

What is about to happen in revenues causes huge uncertainty he said but:

If we are entering into a new world of refundable tax credits this has huge implications – What about: Timing? Possible modifications? And if they are moving forward with a whole bunch of new issues – just coordinating them is a challenge (coordinating credits and other tax provisions/phase-outs and marginal tax rate issues).

Issues with the new and multiple credits are likely to be easy to fix but with a potentially big cost, he said, but there will also be the need to develop an effective system of advance payment. This other issue – one of advance payment, is that although there are differing views on improving that, his view is if we have 6 or 7 refundable tax credits it won't work to have a giant once a year lump sum payment and how it is spread out is going to be important. How to present education credits so they are timed near when people incur the expenses is an issue that is important to fix.

All those are in front of us.

First thing is quick reminder of current law. His presentation gives specs on payouts in 2008.

Two or more children: 40 percent of $12,060 ($4824 maximum).
One child: 34 percent of $8580 ($2917 maximum).
Single:7.65 percent of first $5720 ($438 maximum).
Married filing jointly: phase-out thresholds begin $3000 higher.

His graphic showing the value of federal EITC in 2008 comes from the Center on Budget and Policy Priorities.

Issues with EITC expansion include

- Expanding EITC for noncustodial individuals (childless workers and noncustodial parents/people without children whether married or single, or people not living with their child).

- Addressing marriage penalties as marriage penalty issues become more serious if there is an expansion of EITC

- Expanding EITC for larger family sizes (here there is question on advance payment and simplification with considerations running gamut from complexity of current credit error rates to proposals on consolidating EITC and the child credit and workers credits – these include much bigger proposals.

The poverty rate is higher for families with 3 or more children, according to US Census information. For singles, there is concern over declining real wages for people with less education. Wages among men and women by skill level 1979-2006 and labor force participation graphics show: Only those men with more than high school educations have done better in the past two decades. For the male labor force there is a decline for all groups and they face dual problems of being less likely to be working and having low wages with less education.

He said that principally this has been a story about men and it is serious for women too – they continue to have really low wages even though having less than a high school education is not a story of decline for them.

For individuals with limited educations and low earnings EITC is a way of addressing concerns.

The Obama campaign proposal appears modeled after legislation. It would expand EITC for all non-custodial individuals -- but in a way that is pretty modest, he said. Expansion of EITC for this group means it goes up some but not a lot. Estimates are from 438 to 555 dollars, he said.

Expand EITC for all non-custodial individuals are:
--7.65 percentage unchanged
--phase-in ceiling increased
--phase-out threshold raised to amount for full-time work at minimum wage

Double to 15.3 percent for non-custodial parents paying all support
Raise phase-out threshold for joint filers to $5000
Forty-five percent credit for families with 3 or more children

The proposal to not start phasing out until people reach minimum wage earnings level would mean it would last much longer than current EITC does; it would also double the amount for noncustodial parents paying child support – 15.3 percent, reduce marriage penalties and make credit larger for families with more than 1-2 kids.

More proposals in last 2 years have been made – a dozen or more put forward. What the ones he has compiled share, he said, is a strong sense it's important at the federal level to expand it for people not living with children, and this is largely driven by the labor force problem and EITC's success.

Will see dozen or more varying on lots of dimensions – including percentage, phase in and out times, levels, maximum credits, approach to marriage and families, whether to lower the age or focus on younger workers, and work thresholds to qualify.
In contrast with the Obama proposal most don't advocate a different set of rules for non-custodial parents.

Some of the key questions up for debate are:

- How big an ETIC expansion do you need to have a behavioral effect? What is reasonable to expect?
- Should there be different rules for non-custodial parents?
- How important is it to further address marriage penalties – should there be no penalty involved in being married? How far to go?
- Should EITC be extended to those below 25?

Making Work Pay Credit.

This may be coming up early next year (January). In campaign everyone heard about tax relief for the middle class but at the same time these proposals had significant benefits for low income workers.

Making Work Pay Credit:

6.2 percent of your first 8100 in earnings (1000 per couple, 500 per worker), refundable
No phase out until singles reach 75 thousand, couples 150 thousand.

Tax Policy Center assumes full credit available to singles with incomes below 75,000 and married below 150,000. So there is an upslope, a long plateau, then a down slope, structured cleverly to design tax relief for the middle class, who get most of the benefits and help people who have less at the same time, with significant amounts to low-income earners. TPC estimated cost is $66 billion in 2010.

For you all in thinking ahead, this new world of refundable tax credits and all the issues arising around it are going to provoke a lot of questions, he said.

If Making Work Pay does happen what it means for a new population of people without qualifying children is a question because they are much less likely to have participated or received EITC, and are less likely to be connected to systems. Policy will be premised on improving well being and labor force participation so outreach efforts are crucial.

It seems, he said, based on logic, with each wage earner qualifying (with wage-based qualifications), -- and this means there doesn't seem to be any logical reason not to extend it to younger earners but the answer to whether the age limit will change is unknown right now.

Rachel Gragg, Federal Policy Director,The Workforce Alliance:

The Workforce Alliance is a broad based national coalition looking at policies to invest in skills of America's workers; she worked on welfare reform reauthorization back in the day.

On higher education tax credits:

This is, she said, diverges from what most of us talk about. Existing tax policy is based on outdated ideas of "traditional" students!

There are benefits that have been around for a while but they don't have a high take up rate or it isn't clear they are driving a lot of behavioral changes because they are based on older ideas about who is going to college. These are targeted to parents of 18 year old kids who need to pay tuition costs. The reality is that who is going to these institutions now is different: 3 out of 4 undergraduates have at least one nontraditional characteristic: More than half attend school part time, 40 percent work full time, more than half are financially independent.

The growth in adult learning is apparent, in that these are almost entirely in work-related courses they are taking. The "shift to lifelong learning" is happening actually in little bits – meaning adults are taking one class because their bosses told them it would increase the wages they will get or they have been told or they know they need tech skills for a new job. So credential programs have been declining post '99 but where there is growth in adult learning it's around work-related courses – and not necessarily toward a degree but for technical or occupational training.

Existing higher education tax benefits (HOPE, Lifetime Learning, and tuition tax deduction) are problematic – they can be nonrefundable, cover only tuition and fees, and are complicated. There are lots of proposals on higher education tax credit reform, a response to problems above. Left out is set of problems that non-traditional students face (obstacles) – It is not clear lifelong learning tax credit makes it possible for people to go to college –

Her web site is at:
www.workforcealliance.org

The story is of low-income people who out of their own pocket are going to community college. She is telling that story – access to the HOPE credit is only for two years, the student can't have completed the first 2 years of postsecondary education (as determined by institution), it must lead to a degree or certificate and required at least half-time enrollment – very difficult. The on and off ramps often take more than 2 years, and this is only one of the barriers.

There is lots of interest in congress in promoting college for all – and fixing the tax credits. They are very complicated, not refundable, and don't do much to offset the cost of college – and framed as college beyond the reach of the middle class.

Idea that we want to promote college for all but reality is that there is debate around the traditional 4 year, 18 year old kid, straight through scenario. Some of the problems with proposed legislation are because not everything has been thought through – the Schumer bill (S. 581), she said, would actually be worse than the current law for nontraditional students. Didn't help lifelong learners and nontraditional students.

The Emanuel/Bayh bill (HR 2458/S1501) would vastly expand access for non-traditional students.

A lot of education needs to be done around this.

One class in second bill toward any credential, covered education related expenses, costs of going to community college like room and board and transportation are substantial for low wage worker, full range of proposals moving in wrong direction but this is robust, great bill and it's incredibly expensive so they are working to dial it back.

Obama had the American Opportunity Tax credit proposal up to 4 thousand per student per year. Aren't clear on all details yet but improvements include being fully refundable, available when tuition came due using prior year tax data (advance payment issue), and it's accepted (eligibility) in both 2 and 4 year colleges. Recipient would be required to do 100 hours of community service per year.

Some questions exist around factors like a lot of people who come through workforce are getting training in places other than traditional colleges too and the last requirement about community service is of concern. This is a core proposal to his jobs message, the tax credit. Community service has lots of resonance; it is just 2 hours week.
But the low income person's life can be complicated and chaotic. Evidence shows how as people's work hours go up their ability to stay in college drops significantly.

It is difficult to know what is going to go where, but there are people who feel ownership of this issue in Congress. What happens next? This has high visibility but also very high cost potentially. The new administration has a long "must do" list focused on other issues: stimulus, war, health care reform and budget.

It is likely that something will happen, but it is also likely things could happen as gets slowed down in conversations with people, who will argue people can't use it if it is not refundable. There needs to be rethinking beyond what is currently going on – most people on the Hill have no sense of this and need to be educated because the potential is for tax credits to move away from where we'd like to see them go, she said.

Questions for these 2 speakers:
Q: Rationale for excluding 18 to 24 year olds – what is the short answer? Are there any age limits on higher education tax credits, because those of us working with youth and families need to know.

A: For individuals without qualifying children the original rationale for excluding them was the tradeoff with education (EITC is supposed to be a work incentive and you want them to go to school). In various proposals for change a number are structured to go down with exclusion for full time students of some kind or students so it doesn't compete. But no age restriction on higher ed tax credit – it is mostly around time. CHECK THIS

Q: if you do the Making Work Pay Credit there might be pressure to say we've done something, don't have to do EITC – so, is it half a loaf? Do you think we have to play a tradeoff or be honest is it more of a middle class thing (with poorer people folded into the solution but sort of hidden away)?

A: It's possible that dynamic could happen. It was not clear during campaign that there was much consideration to the relationship between these, but once people focus on design issues it will come up probably. Want to emphasize the Tax Policy Center is working on distribution studies and the benefits will overwhelmingly go to middle class taxpayers with a significant share at the low end. There will probably be interest in

figuring out how these things fit together, and if there is going to be a Making Work Pay Credit, possibly then have EITC credit expanded more on youth or custodial parents, or maybe argue the existing one is so small even with the MWPC we need to do more with EITC.

Q: Will the Obama proposal include room and board, and transportation?
A: Don't know -- haven't seen that level of detail. Most proposals existing now don't include that and it jumps the cost way up. Transportation is an incredibly high cost but you do get push-back on these items and part of the challenge is: Who are you shooting for? Obama talks about it like a middle class conversation, so people may perceive it as more of one.

Q: I Didn't see any mention of child tax credit specifically making permanent reduction of threshold – is it in anything or up for negotiations?

A: On the child credit there is no explicit Obama proposal on it. The current situation is the thresholds for families to qualify have been reduced down to $8,500 -- reduced for one year. Congress will need to face for one year a number of groups and individuals advocating lowering the threshold below $8,500, or to zero, or making the child credit refundable. Now families with less than $8,500 don't qualify for anything. Though there is no explicit Obama proposal it will probably make $8,500 permanent, but the dynamic this year is that on one hand there is no money but costs of what we are talking about are so small in relationship to other things. We will be continuing focus on trying to lower the threshold over time but the Obama campaign will place priority on other proposals is a guess. Competing ones.

Q: What about the service requirement and what it would mean for women/child care and out of pocket expense for that could negate the credit benefit for poor women – (Does this really reflect an understanding of what poor mothers have available to them)?

A: A lot of people think 2 hours a week isn't asking very much of someone. Don't know how to respond. The best approach would be figure out if helping kids with homework is community service, maybe. So we are struggling with this – it raises questions on this aspect of doing social policy. Even if you define community service, what happens if they fall short and what about monitoring capacity of the IRS on this? So there are lots of questions about this. Who do they think is going to college also? Many people really need to see what the world of community college/higher education looks like…it is a very strong political message.

Comment: On the community hours: We are seeing growth in interest of programs in underserved communities that already have a service requirement for students. Tax prep is a skill set and many universities and community colleges see working in these programs as a valuable service. It's a life and job training skill, so Historically Black Colleges and Universities have a community service requirement already – it would be in this case codifying something communities already have. Good coalitions fit with community colleges to provide a place for students to get a valuable skill. I would not say

it's not doable. VITA is a growth place for community colleges because they are doing it now.

Q: Do we have any info or data by race and gender on who would be advantaged or disadvantaged? These proposals vary in cost but have huge differences in who most benefits.

A: In terms of who is helped our hope is we will have that info by January. We will have some preliminary stuff probably in the next couple of weeks.

Q: Do we have info on numbers of first time buyers?
A: Hopefully the answer should be yes and potentially there is a whole universe of people who haven't previously done taxes who will come in; what we should be looking towards is whether across the tax code we should be shifting from exemptions and deductions, or turning this into tax credits wherever possible. There has been an intellectual influence on this and the tax system may become a universal vehicle for addressing a whole set of policies and needs – and/but with a greater universe of people accessing it.

Q: For those on the journey with us, each year we try to focus on policy a bit and this feels like an important moment – what can we as a network be doing now?

A: Depends on how much do you want to engage on it. We need to change the name from Earned Income Tax Credit to something else, probably. This tax credit as a strategy is evolving and growing. Where to push or pull will be the question and it will be important to get intelligence around what is emerging as an opportunity. Linkage and connectivity to hit the ground running in some way should be there.

When asked if they want updates participants said yes, they do want information as things unfold.

Comment: One area where the network could be pushing is for permanent VITA funding – it was a one year grant and should be in the budget beyond and in the president's budget.

Q: On the politics of refundable tax credits and the issue of the refundable tax credit being a "welfare type giveaway by another name" – this wasn't resilient in the campaign but with so much public policy being channeled through refundable tax credits what will be the politics in the new Congress and how much push back will we get?

A: Don't know but this is a good question. On the one level during the campaign the response could be no it's for people who work and it's not welfare but there was some criticism on it creating a big marginal tax rate problem. Historically the rationale for EITC is that it is an offset against taxes owed which is a good rationale for one credit, not six at one time – so it goes beyond the rationale of offsetting taxes. People will ask what this means about our tax system and redistribution, and what it will mean will come forward but the answer is we don't know how it will play out in politics. It is hard to

imagine Congress debating a large number of refundable tax credits and conservatives will talk the welfare and make it stick a little – it may be collapsed and Obama has created some firewall with giving back and making it about the middle class very much so. It will turn it back into that debate though probably so you have to be careful about how you move into it. The Making Work Pay credit may be the one.

Ami's wrap up:
Thank you for participation and ideas. Take a minute to identify the themes I heard:

- Capacity of the field and how to strengthen and grow it. The EITC has had lots of success and has good stories to tell, but there is some uncertainty and many good questions for the coming year and beyond, as policy and administrations change. Sustainability and volunteerism are issues that came up – it is tough to have growing numbers of applicants and a relatively static number of volunteers.
- Employers -- how they fit into tax credits and financial education for workers, and how to get them more engaged.
- VITA grants -- how to better understand them from the funders' perspective. It has been difficult to have to tell some organizations that they cannot be part of the VITA grant awards this time; issues related to schedules, auditing, and records management are coming up that need addressing. This initial award to 111 organizations in the amount of 8 million dollars is just taking shape and the possibility that it could continue is factored into planning. Advocacy around this funding is something to consider.
- Interest in evaluation and its impact on this work continues.
- New policy is coming in from the new administration and there is an incredible set of proposals ahead: Among the challenges will be how to stay connected to what happens and continue to ask the right questions as things evolve in this new administration.